

Maricopa County Assessor's Office Internal Policy and Procedures

Title: Rule B Policy

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Limited Property Value Calculation per Title 42-13302

Purpose: To provide an explanation and examples on determining when to utilize the Limited Property Value (LPV) based on the change in use of the property, new construction or the discovery that an omission had occurred on a property. This procedure is commonly known as the Rule B Calculation.

Arizona law requires the assessor's office to identify if a change in use, addition, or deletion of an improvement to a property has occurred. The appraisal staff is required to determine what change has occurred and follow either a statutory or a standard appraisal methodology to make the corrections to the property record. When there are additional improvements, due to new construction or an omission, the appraisal staff is required to determine if the Rule B process is utilized to calculate the limited property value. If the Rule B calculation is required then the appraiser shall apply, "the level or percentage of the full cash value which is comparable to that of other properties of the same or similar use or classification". When a new calculation of the full cash value is greater or less than ten percent from the previous year's full cash value based on the circumstances listed in this statute, then this policy should be applied. The following scenarios require this policy to be applied to calculate the limited property value.

The first scenario would be the change in use of the property. An example of this would be if a residential home is converted to a commercial use, such as an office building. There are a number of different usages that would require a calculation under this policy. These changes in use could be agricultural, commercial, raw land to a platted subdivision, or a converted residential rental property.

The second scenario would include appraisal staff identifying new improvements have been added, or the deletion of improvements to a property. This addition could be from completing a new structure to a partial completion of a new structure. The deletion could be from a partial deletion to the complete destruction of a structure. There is a number of Rule B Codes that are utilized depending on which specific scenario has occurred. The appraisal staff should utilize the correct rule B to reflect what had occurred on the property. The Codes are as follows:

B1- New or previously escaped parcel – vacant

(Created from a recorded document in which a parcel was cancelled due to the legal description has been changed and at least one new parcel has been created and is vacant. The new parcel(s) have not been taxed in the previous years)

(A vacant parcel that had escaped being taxed for previous years)

B2- New or previously escaped parcel – improved

(Created from a recorded document in which a parcel was cancelled due to the legal description has been changed and at least one new parcel has been created and has an improvement on the parcel. The new parcel(s) have not been taxed in the previous years)

(An improved parcel that had escaped from being taxed for previous years)

B3 – Completed new improvement(s)

(Parcels in which the new improvements are completed within one year from when the construction began) (There should only be a Rule B for the first year the improvements are taxable as completed) (If the improvements are partially complete for multiple years, then you must follow the B5 process)

B4 – Removed, destroyed or damaged improvement(s)

(Parcels in which an existing improvement for previous years has now been destroyed removed from the property)

(A portion of the improvement has been damaged significantly and that portion is not useable in its current condition)

B5 – Partial Completion(s)

(Parcels that have an improvement being built and the building will not be utilized prior to the deadline the current valuation year) (This code is utilized when a property has a partial complete that is less than 100% complete) (If the percentage completes moves more than 10% from past year to the current valuation year should have this Rule B applied) (If the additional value being listed is less than 10%, a Rule A should be utilized)

B6 – Completed (i.e., previously partial-complete) improvement(s)

(Parcel which had a partially completed improvement for the previous valuation year and is now complete) (If the improvements were partially complete for multiple years, the B5 process should have been utilized prior to the tax year that the improvements are listed as 100% complete)

B7 – Utilized under the qualifications of §42-13302. B.C.D (exceptions)

B8 – Physical Change to existing improvement(s)

(Parcel in which the improvement has been upgraded due to having to meet the current Building codes) (this would include remodeled parcels with permits that cover electrical and/or plumbing upgrades because the property owner is required to meet the most current building codes) (the remodel must constitute a 10% or greater increase in the full cash value from the previous year) (The appraiser will need to run a calculation on the value before the additional improvements are added in and then run a second one with the additional improvements added into the system to confirm the 10% increase) (A detailed parcel history note shall be created to explain the Rule B usage)

B9 – Change in use (change in legal class such as class 3 to 4; class 2.R to 1 etc.), (a change in use such as vacant land use to agricultural use – the legal class maintains the same at 2.R but the valuation method changes), (Parcels that are changing the Property Use Code and the change in use creates a 10% or more change in the full cash value due to the Cost or market approaches should receive a Rule B calculation)

If the property does not meet the scenarios stated above, a different calculation procedure is utilized which is defined in Title 42-13301 of the Arizona Statutes. This procedure allows for a maximum increase of five percent from the preceding year to the current tax year, effective 2015. (Commonly named the Rule A Calculation)

The Department of Revenue has provided guidelines for assisting the assessor office. The guidelines are located in the Assessment Procedure Manual in Part 3-Chapter 3.

Hypothetical Examples for each Rule B scenario:

B1- New or previously escaped parcel – vacant

#1 – For the current tax year a large parcel with a land size of 20 acres is being split into 20 one-acre residential lots. The average ratio between the Limited Property Value to the Full Cash Value is 92%.

Previous tax year

Original parcel

Full cash Value 20 ac. X 15,000/ac = \$300,000

Limited Property Value = \$285,000

Current tax year

New Parcels

Full Cash Value 1 acre x \$30,000 = \$30,000 x 20 = \$600,000

Limited Property Value = \$27,600 (92%) x 20 = \$552,000

B2- New or previously escaped parcel – improved

#1- An appraiser has discovered a house has been on a property for multiple years and the office had not verified or listed the home on the property record card. The owner of the home does occupy the residence. The legal class is changed from class 2.R to class 3. The average ratio between the Limited Property Value and the Full Cash Value is 93%.

Previous tax year

Listed as Vacant land 1 acre x 50,000 = \$ 50,000

Limited Property Value = \$ 50,000

Current tax year

Land value (20% of Total) = \$ 36,000

Improvement value = \$144,000

Total full cash value = \$180,000

Limited Property Value = \$167,400 (93%)

B3 – Completed new improvement(s)

#1 – A building permit is received in January of the current year and is completed in October of the same year. The construction is a new barn for a property which was vacant in the previous years. The property is classified for agricultural use. The legal class is 2.R for both the previous years and will be maintained. The average ratio between the Limited Property Value and the Full Cash Value is 75%.

Previous tax year

Valued agriculturally 50 acres x 3,500 = \$175,000

Limited Property Value = \$160,200

Current tax year

Land value 50 acres x 3,500 = \$175,000

Improvement value = \$120,000

Total full cash value = \$295,000

Limited Property Value = \$221,250 (75%)

B4 – Removed, destroyed or damaged improvement(s)

#1 – A demolition permit is received in the office in April of the current year for the demolition of a residential home in a subdivision. The appraiser field inspects the property in June of the current year and verifies the residence has been demolished as well as the foundation removed. The legal class was 3 for owner occupied and will be changed to class 2.R since the property will be vacant land. The land Value will be reflective of the market sales of residential lots in the same market area. The average ratio between the Limited Property Value and the Full Cash Value is 95%.

Previous tax year

Land value	= \$ 40,000
Improvement value	= <u>\$160,000</u>
Total full cash value	= \$200,000
Limited Property Value	= \$195,000

Current tax year

Valued as Vacant Land	= \$ 60,000
Limited Property Value	= \$ 57,000(95%)

B5 – Partial Completion(s)

#1 – Construction of a residential home begins in June of the current year. The appraiser field inspects the property in October of the current year. The construction is partially complete with the exterior walls and the roof in place. The legal class is changed from class 2.R to class 4. The full cash value is set at 50% of the market value as if 100% completed. The average ratio between the Limited Property Value and the Full Cash Value is 95%.

Previous tax year

Land value	= \$55,000
Improvement value	= <u>\$0</u>
Total full cash value	= \$55,000
Limited Property Value	= \$48,500

Current tax year

Land value	= \$ 48,000
Improvement value	= <u>\$192,000</u>
Total full cash value	= \$240,000 (50% of the market value \$480,000)
Limited Property Value	= \$228,000 (95%)

#2 – The same house listed above is field inspected again in October the following year. The appraiser discovers there has been no further construction since the previous year. The market has increased by 8% since last year. Per Statute the limited property value will be calculated at a 5% increase from the previous year. (A2)

Previous tax year

Land value	= \$ 48,000
Improvement value	= <u>\$192,000</u>
Total full cash value	= \$240,000 (50% of the market value \$480,000)
Limited Property Value	= \$228,000 (95%)

Current tax year

Land value	= \$ 51,800
Improvement value	= <u>\$207,400</u>
Total full cash value	= \$259,200 (50% of market value \$518,400 (8% market increase))
Limited Property Value	= \$239,400 (5% increase from the previous years LPV)

B6 – Completed (i.e., previously partial-complete) improvement(s)

#1 - The appraiser field inspected a residential home that was listed at 50% complete for the previous year. The appraiser confirmed the home is 100% complete and has a Certificate of Occupancy. The legal class is maintained at class 4. The residential market has increased by 12% from the previous year. The average ratio between the Limited Property Value and the Full Cash Value is 90%.

Previous tax year

Land value	= \$ 25,000
Improvement value	= \$ <u>100,000</u>
Total full cash value	= \$ 125,000 (50% the full cash value based on the market \$250,000)
Limited Property Value	= \$ 110,000

Current tax year

Land value	= \$ 56,000
Improvement value	= \$ <u>224,000</u>
Total full cash value	= \$ 280,000 (12% increase market)
Limited Property Value	= \$ 252,000 (90%)

B7 – Utilized under the qualifications of §42-13302. B.C.D (exceptions)

#1 – A vacant 2.00 acre parcel is split in order to widen the adjacent roadway. The land size of the property being transferred to the municipality is .33 acres. This parcel is exempt from taxation. The new parcel with the same owner is now 1.67 acres will have a land rate of \$45,000 per acre. The average ratio between the Limited Property Value and the Full Cash Value is 80%.

Previous tax year

Original parcel	
Full cash Value 2 ac. X 42,000/ac	= \$84,000
Limited Property Value	= \$63,000

Current tax year

New Parcel	
Full Cash Value 1.67 acres x \$45,000	= \$ 75,200
Limited Property Value	= \$ 60,160
(Rule A calculation = \$63,000 x 1.05 = \$66,150)	
(Rule B calculation = \$75,200 x .80 = \$60,160)	

#2 – The Highway Department is purchasing a .75 acre strip of land from a storage unit complex. The original land size is 3.25 acres. The new parcel is now 2.50 acres and the land rate of \$45,000 per acre. The cost value has increased by 7% from the previous year. The average ratio between the Limited Property Value and the Full Cash Value is 90%.

Previous tax year

Original parcel	
Land Value 3.25 ac. X 35,000/ac	= \$113,750
Improvement Value	= \$ <u>460,000</u>
Total Full Cash Value	= \$573,750
Limited Property Value	= \$500,000

Current tax year

New Parcel	
Full Cash Value 2.50 ac. x \$45,000/ac	= \$112,500
Improvement Value	= \$ <u>492,200</u> (7% increase in the cost components)
Total Full Cash Value	= \$604,700
Limited Property Value	= \$524,000
(Rule A calculation = \$500,000 x 1.05 = \$525,000)	

(Rule B calculation = \$604,700 x .90 = \$544,230)

B8 – Physical Change to existing improvement(s)

#1 – The office received permits to completely remodel the interior of an office building in January of the current year. The permits were for updating of the electrical and plumbing, as well as moving interior walls. The building codes for the electrical were updated just last year. The appraiser confirmed the construction had been completed in November of the current year. This property is valued utilizing the sales comparison approach. The increase in the total full cash value with the remodel is 25% of the previous year's value. The market percentage of increase is 11% from the previous year. The average ratio between the Limited Property Value and the Full Cash Value is 92%.

Previous tax year

Land value	= \$ 300,000
Improvement value	= <u>\$ 1,200,000</u>
Total full cash value	= \$ 1,500,000
Limited Property Value	= \$ 1,325,000

Current tax year

Land value	= \$ 543,000
Improvement value	= <u>\$1,332,000</u>
Total full cash value	= \$1,875,000 (11% increase in the market is \$1,665,000)
Limited Property Value	= \$1,725,000 (92%)

#2 – A permit is received for the construction of a restaurant that requires some structural improvement. The north wall has shifted and needs to be reconstructed and two new support columns are required within the floor plane in order to reinforce the roof structure. The appraiser receives a Certificate of Completion and field inspects to confirm. The appraiser determines that the north walls were reconstructed and the two columns are also holding a new center beam which runs from one end to the other end of the ceiling. This property is valued utilizing the cost approach. The increase in the total full cash value with the remodel is 34% from the previous year's value. The component costs have increased by 6% from the previous year based on the Marshall & Swift Cost information. The land value increased 8% from the previous year. The remodel provided a 28% increase in the full cash value. The average ratio between the Limited Property Value and the Full Cash Value is 81%.

Previous tax year

Land value	= \$ 185,000
Improvement value	= <u>\$ 690,000</u>
Total full cash value	= \$ 875,000
Limited Property Value	= \$ 665,000

Current tax year

Land value	= \$ 199,800
Improvement value	= <u>\$ 972,700</u>
Total full cash value	= \$1,172,500 (6% increase per M&S Costs \$731,400)
Limited Property Value	= \$ 949,725 (81%)

B9 – Change in use

#1 – A vacant land parcel is being removed from agricultural classification because the property no longer meets the requirements. The property was sold in June of the current year and the new owner cancelled the lease with the farmer. The new owner did not notify the office, so the appraiser went out and confirmed there is no farming activity as of September of the current year. The agricultural rate is \$1,400 per acre and the market land rate is \$30,000 per acre. The legal class will not be changed due to both specific uses being classified as 2.R. The average ratio between the Limited Property Value and the Full Cash Value is 78%.

Previous tax year

Agricultural Land value 32.50 ac x 1,400/ac = \$45,500
Limited Property Value = \$45,500

Current tax year

Valued as Vacant Land 32.50 ac x 35,000/ac = \$1,137,500
Limited Property Value = \$1,114,750 (78%)

#2 – A permit is received for the conversion of a residential home into a commercial office in December of the previous year. The appraiser field inspects and confirms the construction has been complete in September of the current year. The improvement has been completely remodeled internally as well as an 8 space parking lot constructed for the customers and employees. The legal class is changed from class 4 to class 1.12 to reflect the current use as an office. The average ratio between the Limited Property Value and the Full Cash Value for similar properties is 85%.

Previous tax year

Land value = \$ 23,600
Improvement value = \$ 94,000
Total full cash value = \$ 118,000
Limited Property Value = \$ 118,000
Legal Class 4

Current tax year

Land value = \$ 52,000
Improvement value = \$ 410,000
Total full cash value = \$ 462,000
Limited Property Value = \$ 392,700 (85%)
Legal Class 1.12

Note: The majority of these examples are focused on the addition of improvements or remodeling of the improvements. If there is a declining market, the appraiser shall follow the same process. If there is a 10% or more change in the full cash value with the additions or remodeling, the Rule B calculation should be utilized.